I.C.C. DOCKET NO. 02-0716

TESTIMONY OF BOBBY J. CLINE

ATMOS ENERGY CORPORATION

Q. Would you please state your name, responsibility, and business address?

A. Bobby J. Cline, Manager, Rate Administration, Atmos Energy Corporation (Atmos, the Company), 381 Riverside Drive, Suite 440, Franklin, Tennessee 37064.

Q. Please briefly summarize your educational background and experience within the natural gas industry.

A. I have received a Bachelor of Science degree in Business, with a major in accounting, from the University of the State of New York. In November 1993, I passed the American Institute of Certified Public Accountants' Uniform Certified Public Accountant's examination, and currently hold an active permit to practice public accountancy in the state of Tennessee. I have also completed additional studies in rate processing and fundamentals of regulated utilities sponsored by the University of Colorado and Arthur Andersen & Co.

My employment within the gas industry began with United Cities Gas Company (United Cities) in June 1974 in the area of General Accounting and in June 1979, I became responsible for Gas Cost Accounting. In October 1979, I was appointed Administrative Assistant responsible for the computation and filing of United Cities' Purchased Gas Adjustments ("PGA") with the Commissions in the states of Illinois, Kansas, Iowa, Tennessee, Virginia, South Carolina, Missouri, and Georgia. My title became Rate Analyst in 1983, Senior Analyst in 1992, and Assistant Manager – PGA/ACA Tariff Filings in 1995.

After the merger of United Cities and Atmos Energy Corporation, I became Manager, Rate Administration for Atmos Energy in October 1998. My current responsibilities include the computation and filing of PGAs and Gas Cost Adjustments ("GCA"), along with the recovery/refunding of under/over-recovery balances for the Atmos operations in the States of Illinois, Colorado, Kansas, Missouri, Iowa, Tennessee, Virginia, Georgia, Kentucky, and Texas. In addition to the PGA and GCA filings, I am also responsible for the maintenance of the Company's rate tariffs.

Q. Have you testified before this Commission?

A. Yes, I have testified before the Illinois Commerce Commission. I have testified before the Colorado Public Utilities Commission and South Carolina Public Service Commission in purchase gas cost adjustment proceedings, which included the related gas purchasing/prudence issues. I have also presented testimony before the Missouri Public Service Commission regarding recovery of take-or-pay costs and purchase gas cost issues. In addition, I have testified before the Georgia Public Service Commission regarding rate design issues in a general rate case.

Q. Please state the purpose of your testimony in the proceeding.

A The purpose of my testimony is to present the evidence required by the Commission's Citation Order dated November 7, 2002. The evidence required consists of: 1) the reconciliation of revenues billed under the PGA clause with the actual cost of gas obtained during the 2002 reconciliation year and 2) the prudence of the gas supply purchases during the reconciliation year.

Q. Please provide a general background of Atmos' Illinois operations before presenting the required evidence.

A. Atmos provides natural gas service to six operating areas in Illinois: Virden, Vandalia, Harrisburg, Metropolis, Salem, and St. Elmo. The gas supply for these service areas is received through separate interstate pipelines: Panhandle Eastern Pipe Line Company, Natural Gas Pipeline Company of America, Texas Eastern Transmission Corporation, Trunkline Gas Company, and Mississippi River Transmission Corporation. There have been six PGA reconciliations filed in previous years. Effective May 1, 2002, the Company sought, and received, approval from the Commission to have one state-wide PGA. In accordance with the Company's tariff, only one state-wide reconciliation is submitted beginning with the 2002 reconciliation year.

Q. What evidence are you presenting to show the reconciliation of revenues under the PGA clause with the actual cost of gas supplies obtained during the 2002 reconciliation year?

A. Page 1 of each of the Exhibits reflects the minimum filing requirements set forth in the Citation Order. Pages 2 and 3 each of the Exhibits consists of three sections: Gas costs recoverable through the PGA clause, titled "Gas Cost Recoverable through Gas Charge"; revenues billed under the PGA clause, titled "Gas Cost Recovered", and the net reconciliation balance. The "Gas Cost Recoverable through Gas Charge" consists of all invoiced gas cost (commodity cost and, where applicable, contract demand cost, storage demand cost, and transportation charges on spot market gas), plus the commodity cost of gas withdrawn from storage at the applicable, First-in, First-out (FIFO) inventory rate, plus the interest of any unamortized balance of Factor A on Schedule II in the Company's monthly PGA filings, less the commodity cost of gas injected into storage at the applicable (FIFO) inventory rate, less the cost of gas used by the Company at the system average cost of gas during the month of usage.

Exhibit I reflects the totals of all the Illinois service areas, with total recoverable gas costs of $10,593,061.82 and total gas cost recoveries of ($10,195,906.92), leaving a net amount due the Company of $397,154.90.

Q. Is Atmos requesting any Factor O adjustments?

A. No.

Q. Please explain the method utilized to purchase gas for Atmos' Illinois service areas.

A. The Company has contracts with five interstate pipelines. Those interstate pipelines and the Atmos' operating areas served are: Panhandle Eastern Pipeline Company (Panhandle) serving Virden; Natural Gas Pipeline Company of America (Natural) serving Vandalia, Salem and St. Elmo; Texas Eastern Transmission Corporation (Texas Eastern) serving Harrisburg; Trunkline Gas Company (Trunkline) serving Metropolis, Salem and Virden; and Mississippi River Transmission Corporation (MRT) serving Salem. All of the contracts are transportation and/or storage contracts, and Atmos is responsible for the acquisition of the gas supply from whatever source it chooses. The Company moves gas through Natural and MRT under a demand/commodity transportation rate schedule, with a one-part transportation rate for "swing" volumes. The gas moved through Trunkline and Panhandle is under a one-part transportation rate schedule. The gas moved through Texas Eastern is under a demand/commodity transportation rate. All of the service areas have purchased storage services. The acquisition of the actual gas varies by service area. The gas for the service areas was provided by a five-month winter contract with suppliers, and purchased from the spot market during the summer months except with MRT, NGPL, and Trunkline in which we have a twelve-month agreement. All of the contracts are based on market sensitive industry indexes for the period January 2002 through October 2002. In addition, for the months of November 2002 through March 2003, the Company entered into financial futures and collars contracts on approximately 50% of the net expected purchases for that period in order to reduce fluctuation in the PGA rates to customers. These contracts to purchase gas, including spot market purchases, are determined by using a competitive bidding process. The Company also has agency agreements with Laclede Energy Resources, Incorporated to manage our capacity on NGPL and MRT Energy Marketing on the MRT system.

Q. How does the bidding process work?

A. The Company solicits bids from producers and brokers. The request for bids contain information such as quantity of gas, the serving pipeline, and length of contract. After bids are received, the Company evaluates those bids by taking into consideration the producer/broker's reputation, reliability of supply, and price. The Company must have assurance of the bidder's reputation and reliability of supply before awarding a contract. If several bidders meet this criteria, the bidder with the lowest price is chosen.

Q. Please describe the measures taken by the Company to insulate the PGA from price volatility?

A. As mentioned, the Company hedged approximately 50% of the expected net purchases for the period November 2002 through March 2003, by purchasing financial futures and collars contracts. The net purchases are the total system requirements less storage. Storage supplies approximately 39% of the system requirements. The Company hedged 50% of the net purchases to provide rate stability and to avoid severe price spikes, while leaving the remaining 50% of net purchases at the traditional purchasing patterns to take advantage of any downward turn in market prices. The hedging activity for January through March 2002 resulted in additional gas costs of approximately $442,378 above the prevailing market prices in effect during those months. The hedging activity for November and December 2002 resulted in a reduction of gas costs of approximately $56,440 below the prevailing market prices in effect during those months.

Q. Is it your opinion that the Company is engaging in prudent gas purchasing decisions?

A. Yes.

Q. Does this conclude your testimony at this time?

A. Yes.